



Aberdeen *Group*

The E-procurement Benchmark Report

Less Hype, More Results

December 2004

— Sponsored by —

sciQuest®



PurchasingNet, Inc.
eProcurement & ePayables solutions





Executive Summary

Once viewed as the poster child for the dot com bust, Internet-based procurement automation (e-procurement) had been quietly delivering measurable value to enterprises in the form of reduced material and operating costs, improved compliance, and increased total spend under management. The third in a series of *AberdeenGroup* benchmarks of e-procurement performance since 1998, this study examines the hurdles, strategies, and results of nearly 150 enterprises using e-procurement today. This study also identifies best practices for maximizing spend under control and value of e-procurement.

Key Business Value Findings

The hype over e-procurement has long been muted, but the value impact of this requisition-to-order solution and spend management approach continues to crescendo. Enterprises today are using e-procurement to manage more requisitions, spend categories, and suppliers than ever before. Study participants outperformed Aberdeen's 2001 and 1998 e-procurement benchmarks in total spending managed via e-procurement, suppliers enabled, user adoption, and reduction in unapproved spending.

On average, enterprises participating in the 2004 benchmark:

- Reduced off-contract ("maverick") spending by 64%.
- Reduced prices by 7.3% for spend brought back onto contract.
- Reduced requisition-to-order cycles by 66%.
- Reduced requisition-to-order costs by 58%.
- Increased total spend under management of procurement group by 20%. Each new dollar brought under management can yield 5% to 20% cost reductions.

Implications & Analysis

The above findings demonstrate that e-procurement contributes quantifiable benefits to compliance and spend management initiatives. However, the benchmark reinforced that supplier enablement, user adoption, and budgetary and policy support challenges remain.

Enterprises reaping the greatest value from their e-procurement investments have used the following strategies and approaches to overcome these challenges:

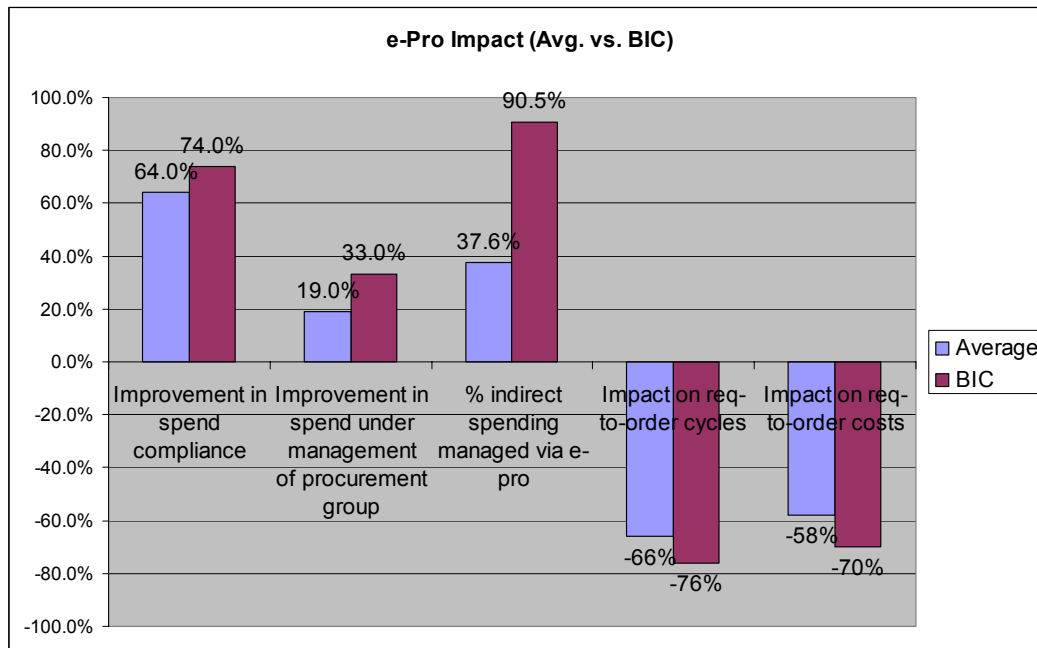
- Elevated e-procurement from a tactical transaction management activity to a strategic source-to-pay initiative for driving compliance.
- Secured senior executives support and policy changes to drive system adoption and compliance. By contrast, average and lagging firms cite greater challenge in securing budget and support.
- Shifted supplier enablement and catalog management tasks to supplier networks or catalog hubs managed by their e-procurement vendor, procurement service provider (PSP), or another third-party. By contrast, average and lagging firms attempt to manage catalogs and supplier enablement issues internally.



- Clearly defined and reinforced cost, process, and performance metrics for measuring e-procurement success. And, where possible, tied procurement function and business unit incentives to these metrics.

Best-in-class performers employing these strategies have realized significantly greater efficiencies, price and cost reductions, and spend under management (Figure 1).

Figure 1: E-procurement Delivers Measurable Benefits



Source: [AberdeenGroup](#), December 2004

Recommendations for Action

Enterprises looking to improve spend compliance and control should give e-procurement a second look. Likewise, early adopters should invest to reinvigorate or extend underperforming initiatives. Aberdeen recommends the following strategies for the best results:

- Align company executives and policies to drive adoption and compliance.
- Transition supplier enablement and management activities to a supplier network or catalog hub managed by a third-party.
- Adopt complementary functionality or solutions to manage and control a broader range of spending, such as business services.
- Extend deployment footprint to include order-to-pay activities.
- Leverage spend data for improved sourcing and compliance management.



Table of Contents

Executive Summary	i
Key Business Value Findings.....	i
Implications & Analysis	i
Recommendations for Action	ii
<i>Chapter One: Issue at Hand</i>	1
Compliance Is Driving E-procurement Resurgence	2
Advances Make E-procurement a Better Value	2
<i>Chapter Two: Key Business Value Findings</i>	4
Class of 2004 Outperforms Previous Benchmarks by Wide Margin	5
Supplier Enablement, Adoption, and Policy Challenges Remain	6
Supplier Enablement.....	7
User Adoption.....	8
Budget and Policy Support.....	9
<i>Chapter Three: Implications & Analysis</i>	10
E-procurement Users Looking to Expand their Investments	14
<i>Chapter Four: Recommendations for Action</i>	16
Laggard Steps to Success.....	16
Industry Norm Steps to Success	16
Best in Class Next Steps	17
Featured Sponsors.....	19
Sponsor Directory	22
Author Profile	23
<i>Appendix A: Research Methodology</i>	24
<i>Appendix B: Related Aberdeen Research & Tools</i>	27
About AberdeenGroup	28



Figures

Figure 1: E-procurement Delivers Measurable Benefits	ii
Figure 2: Challenges to E-procurement Success	6
Figure 3: Supplier Enablement Still Has Its Challenges	8
Figure 4: Best-in-Class Approaches Yield Big Results	13
Figure 5: Maturity and Scope of E-procurement Deployments in Benchmark	25

Tables

Table 1: E-procurement Impact (Average Performance)	4
Table 2: E-procurement Performance: 2001 vs. 2004 (Average)	5
Table 3: E-procurement Costs: 2001 vs. 2004 (Average)	6
Table 4: E-procurement Competitive Framework	11
Table 5: E-procurement Users: Related Automation Investments and Plans	14
Table 6: Competitive Framework	26

Chapter One: Issue at Hand

Key Takeaways

- E-procurement was damaged by hype, immature applications, and valuations of early market.
- Renewed focus on spend compliance demands spend control and visibility afforded by e-procurement.
- Advances in solution functionality breadth, introduction of new delivery and pricing models, and the emergence of complementary applications and supplier networks have improved e-procurement adoption and ROI.

Among the first enterprise business application areas to embrace the ubiquitous and user-friendly attributes of the Internet and the World Wide Web, e-procurement burst onto the scene in the mid-1990s full of promise. Unfortunately at the time, enterprise licensing decisions were based less on well-honed business cases and more on a frenetic and irrational desire to be viewed as “e” savvy and, in some cases, to cash in on outrageous market valuations of pioneering e-procurement vendors.

Many vendors fueled this irrationality with aggressive marketing messages that far outpaced the functionality of their solutions. At the time, e-procurement focused on the narrow yet real challenge of automating the requisition-to-order process for non-production (indirect) goods, such as office supplies, computer equipment, and maintenance, repair, and operating (MRO), which account for 30% to 60% of spending at most enterprises. These Web-based solutions pushed the search and selection of products to the desktops of front-line employees while enforcing the contracts and business rules of the organization.

The value proposition of these solutions was simple: use automation to drive process improvement, cost containment, and contract compliance for a large corporate expense that was poorly controlled and managed manually at most firms. However, returns against this proposition were muted due to the following attributes of early e-procurement applications:

- Average selling prices for early e-procurement applications solutions topped \$1 million, with implementation costs running more than twice license fees.
- Early application functionality was limited to “catalogable” goods, overlooking the larger and more critical services spending categories, which represent from 30% to 50% of all indirect spending.

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance:

Laggards (30%) —practices that are significantly behind the average of the industry

Industry norm (50%) — practices that represent the average or norm

Best in class (20%) — practices that are the best currently being employed and significantly superior to the industry norm



- Early providers also struggled with supplier enablement, placing the burden and costs of enabling and maintaining supplier catalogs and transactions on the shoulders of customers.

These limitations, coupled with the fact that few enterprises had imposed adequate policies and controls to drive compliance, were a recipe for disaster. In fact, Aberdeen's 2001 benchmark found that the typical e-procurement implementation had only 30 suppliers enabled and less than 20% of indirect spend under management of the system. When the dot.com bubble burst, several solution providers went out of business and many e-procurement initiatives were stalled in their tracks.

Compliance Is Driving E-procurement Resurgence

Despite the market realities, the core value proposition of e-procurement is still valid. Enterprises continue to struggle to maximize their spending leverage, ensure that spend is sourced and managed under standard controls, and drive compliance with supplier agreements. In fact, an Aberdeen study of 125 supply management executives published earlier this month identified visibility into spending and driving compliance with supply contracts as the two leading challenges facing procurement organizations today.¹ Better spend visibility and control can also aid companies in their ability to report accurate and timely financials, as required under new legislation, such as the Sarbanes-Oxley Act.

Such factors are prompting many enterprises to give e-procurement a second look. Likewise, early e-procurement adopters are beginning to invest to reinvigorate or extend stalled or underperforming initiatives.

Advances Make E-procurement a Better Value

E-procurement technologies, implementation and management techniques, and delivery and pricing methods have also advanced over the past decade. The following factors illustrate how these advances are accelerating the adoption and value of e-procurement:

- **Basic requisition-to-order functionality has matured:** E-procurement functionality and usability have advanced dramatically over the past decade. Today, core requisitioning, approval routing and workflow, and basic integration and reporting capabilities are largely undifferentiated between competing solutions. Implementation and maintenance methods have also matured, with most applications now shipping with pre-defined process, implementation, and report templates to help speed system deployment and ease maintenance burdens.
- **Application providers have extended process footprint and category-specific functions:** Product differentiation today is based on the process breadth (e.g., integrated source-to-pay, demand aggregation and management) or category- or industry-specific functionality (e.g., contingent labor, print, or life sciences).
- **Supplier networks and catalog hubs have reached critical mass:** Supplier networks and catalog hubs emerged to minimize the burdens of supplier enable-

¹ *Spend Compliance Management: Implementing and Sustaining Supply Savings* (December 2004)



ment and ongoing buyer-supplier interactions. Unfortunately, early networks were costly (with most collecting both connection and transaction fees) and proprietary, forcing suppliers to invest in multiple networks or hubs to maintain their existing customer relationships. As a result, adoption and value of these nascent networks was limited. While there are fewer supplier networks in existence today, many have reached “critical mass,” connecting thousands of buyers and suppliers and managing tens of thousands of transactions each month. Such market liquidity dramatically lowers the burdens and increases the value of e-procurement by empowering participants to connect once to transact with multiple trading partners. Several of these networks also offer value-added services, such as automated invoicing, reconciliation, and payment capabilities.

- **New pricing and delivery models make e-procurement accessible to the masses:** Aberdeen’s benchmark revealed that average selling prices for e-procurement licenses have decreased nearly 75% since 1998. And implementation fees are now typically less than the initial license fee, making e-procurement accessible to small and mid-sized firms. This price decline is partially attributable to the emergence of enterprise resource planning (ERP) vendors as formidable competitors. Price depreciation has been accelerated in recent years due to new hosted delivery and subscription or pay-as-you-go (“on demand”) pricing models offered by new managed service providers, procurement service providers (PSPs), and the e-procurement application providers themselves. Aberdeen’s 2001 benchmark found that hosted solutions offered considerable implementation cycle and license cost improvements over applications installed and managed on premise. This year’s benchmark reaffirmed hosting’s implementation cycle advantages, with enterprises using hosted delivery reporting 25% to 30% faster deployment times than those implementing applications on premise. However, application license fees and maintenance fees have shrunk within relative parity of hosted solution fees. Yet, enterprises using hosted offerings reported fewer full-time-employees (FTEs) dedicated to ongoing system maintenance.

The above factors improve the accessibility and enhance the overall value and return on investment (ROI) potential of e-procurement.



Chapter Two: Key Business Value Findings

Key Takeaways

- Fact: e-procurement is delivering measurable improvements in cost, compliance, productivity, and spend under management.
- E-procurement deployments now manage more transactions, suppliers, and spend than ever before.
- Supplier enablement, employee adoption, and executive support remain challenges.

The chief finding of Aberdeen's 2004 E-procurement Benchmark is that, despite the initial hype and resulting aftermath, e-procurement really works. Respondents report measurable improvements in costs, compliance, productivity, and spend under management.

Table 1 illustrates the impact e-procurement is having on enterprise compliance and spend management initiatives. Performance improvements recorded map very closely to Aberdeen's previous benchmarks, indicating that e-procurement is consistently delivering on its initial value proposition.

Table 1: E-procurement Impact (Average Performance)

Performance Area	Before E-Pro	After E-Pro
% of spending that is off-contract ("maverick")	38%	14.2%
Price savings on maverick purchases brought into compliance	--	7.3%
Requisition-to-order cycles	20.4 days	3.8 days
Requisition-to-order costs	\$56	\$23
% of spend under management of the procurement group	56%	69%

Source: [AberdeenGroup](#), December 2004

One of the most compelling findings in the 2004 benchmark is the ability of e-procurement users to bring more spend under management of the procurement organization. Aberdeen defines spend under management as the portion of corporate expenditures that are sourced and controlled by the procurement organization. The advantages of having spend under management is to ensure maximum spending leverage and the application of consistent and best practice market diligence, costing, negotiation, and compliance methods to each spending category. (By contrast, spending managed outside the procurement group typically results in decreased negotiation leverage and suboptimal market vetting, and higher supply prices and management costs.) Aberdeen research



finds that enterprises have been able to achieve a 5% to 20% cost reduction for each new dollar of spend brought under management of the procurement organization.

To be clear: e-procurement is not solely responsible for spend under management improvements. However, study findings clearly suggest that e-procurement is a prime contributor to increasing the amount of spend under management. Part of the reason for such improvements is that e-procurement adopters are more inclined to have made spend management a leading corporate initiative.

Class of 2004 Outperforms Previous Benchmarks by Wide Margin

Enterprises today are using e-procurement to manage more requisitions, spend categories, and suppliers than ever before. Study participants outperformed Aberdeen's 2001 and 1998 e-procurement benchmarks in the following areas (Table 2):

- *Spend managed*: Today's typical implementation manages nearly 40% of indirect purchases via e-procurement, more than double the average percent of spending managed via e-procurement in 2001. E-procurement users have also expanded the types of spend managed via e-procurement. Case in point: the typical user now manages nearly a third of all services purchases online.
- *Suppliers enabled*: The typical e-procurement implementation now has more than 250 suppliers enabled – nearly a 10-fold increase compared to 2001.
- *User adoption*: The typical e-procurement implementation now has more than twice as many users as the average deployment in 2001. Enterprises today are also much closer to their overall user adoption goals than they were in 2001.

Table 2: E-procurement Performance: 2001 vs. 2004 (Average)

Performance Area	2001	2004
Number of suppliers enabled	30	253
Number of users ²	1,000	2,309
% of users currently versus planned	12%	43.5%
Number of transactions/month ²	1,340	5,244
% of indirect spending managed via e-pro	18%	37.6%
% of services spending managed via e-pro	--	32.7%

Source: [AberdeenGroup](#), December 2004

As noted earlier, e-procurement users are also reporting lower license fees and lower implementation and maintenance costs than in previous years (Table 3).

² Averages impacted by diverse range of sizes of companies included in sample.



Upshot: e-procurement is delivering more value at a fraction of the cost than in previous years. Performance and pricing improvements are the result of maturing e-procurement technologies, alternative delivery and pricing models, increased market competition, and performance and participation performance of supplier networks and catalog hubs.

Table 3: E-procurement Costs: 2001 vs. 2004 (Average)³

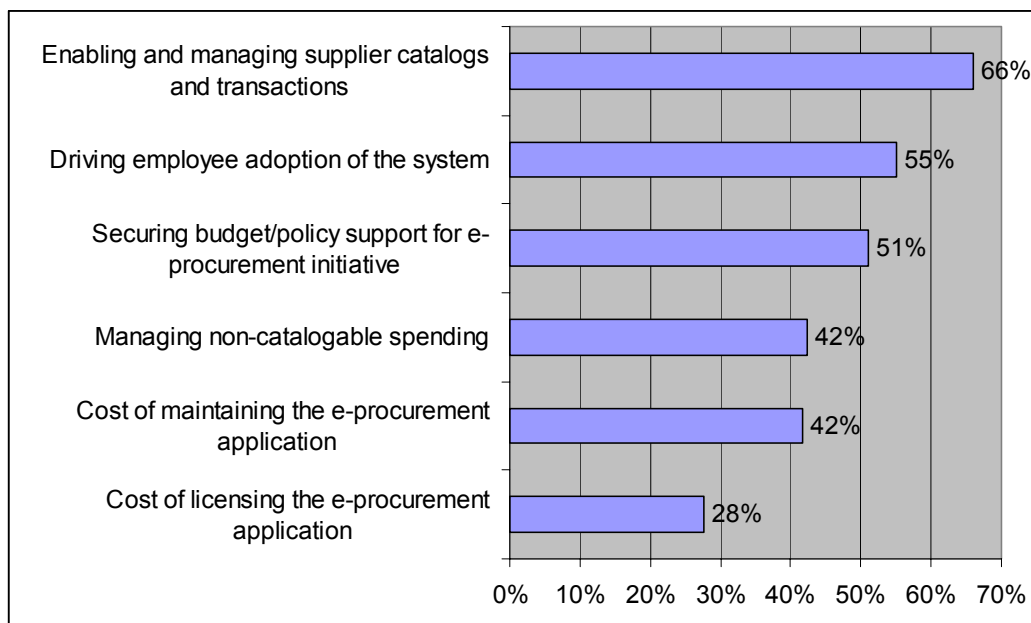
Performance Area	2001	2004
License fees (\$ thousands)	\$1,090	\$383
Implementation fees as % of license	109%	98%
Maintenance fee as % of license	18%	14.8%

Source: [AberdeenGroup](#), December 2004

Supplier Enablement, Adoption, and Policy Challenges Remain

The 2004 benchmark reinforced that supplier enablement, user adoption, and budgetary and policy support challenges delay or mute the benefits of e-procurement (Figure 2):

Figure 2: Challenges to E-procurement Success



Source: [AberdeenGroup](#), December 2004

³ Averages impacted by diverse range of sizes of companies included in sample. Detailed average selling prices and fees available on [AberdeenAccess](#) (www.aberdeen.com).



Other challenges cited by respondents include adopting processes and functionality to sufficiently support procurement and compliance management requirements for non-catalogable items, such as contingent labor, printing, and travel.

Supplier Enablement

Enabling and managing supplier catalogs and transactional capabilities has long been the Achilles heel of e-procurement initiatives. Previous Aberdeen benchmarks found that enterprises grossly underestimated the level of effort required to enable and manage supplier content and transactions. It is a positive sign that respondents to the 2004 benchmark now recognize supplier enablement as an activity that is vital to the success of their e-procurement initiatives. It is equally encouraging that for the first time enterprises recognize that effective supplier enablement requires sufficient support and resources to address.

To alleviate enablement burdens, respondents to the 2004 benchmark reported using third-party supplier networks or catalog hubs. However, due to the maturity of the benchmark sample (more than 60% of respondents have been using e-procurement for more than a year) most e-procurement initiatives continue to rely on a mix of the three predominant supplier enablement methods (Figure 3):

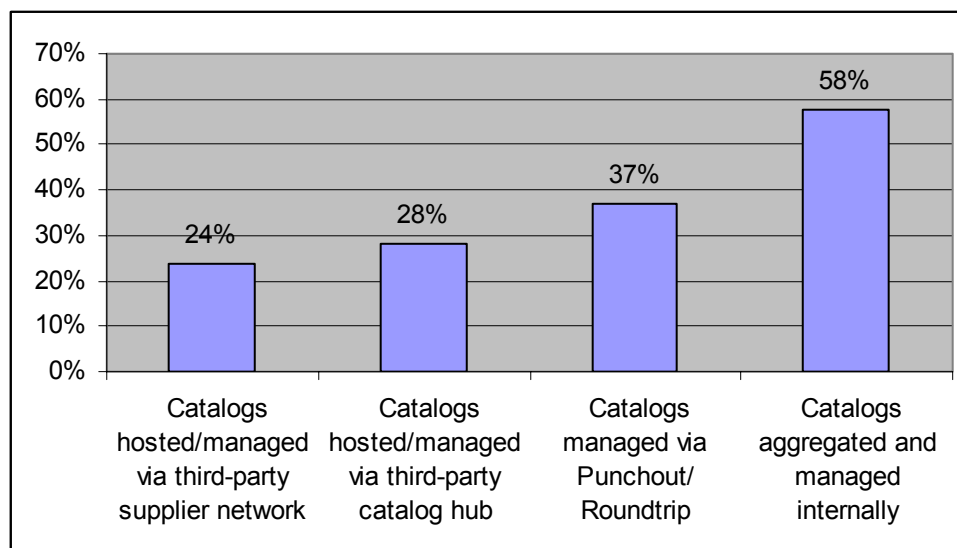
- **Buyer managed:** The predominant catalog management method used by early adopters, the buyer-managed enablement model (a.k.a., content aggregation) requires full or partial replication and ongoing management of product information from multiple suppliers into a “master” catalog. While providing maximum control, the buyer-managed model is the most burdensome of all supplier enablement methods. The reason: product information is stored in multiple legacy systems and formats that vary by supplier. This information must be updated to ensure access to current product descriptions and pricing, which can change multiple times in a single year. To alleviate these burdens, many buyers required suppliers to support unique data and transaction formats. This tactic merely transfers the burdens to suppliers, forcing them structure product and pricing information into unique formats for each customer.
- **Supplier managed:** Some e-procurement users attempted to avoid such issues by remotely accessing product, pricing, and other business information directly from a supplier’s Web storefront. Known by various names (OBI, Punch-out, and Roundtrip), this supplier-managed method leverages industry standard extensible markup language (XML) schemas to give suppliers maximum control over the presentation of their data. However, it does not effectively support product or price comparisons across catalogs and requires requisitioners to navigate multiple user interfaces (UI). Recent advances have attempted to balance the consistent control and UI of an e-procurement system with the flexibility of a supplier-managed catalog. However, the supplier-managed method relies on the ability of individual suppliers to develop effective, transaction-enabled catalogs — a requirement that excludes many suppliers.
- **Supplier networks and catalog hubs:** In recent years, supplier networks and catalog syndication hubs have emerged to eliminate the challenges of point-to-



point integration and the pains of supporting multiple data formats and standards. The basic premise is to provide a single point of integration for the management of information, transactions, and processes across multiple trading partners. Suppliers can upload and maintain a single catalog on the network or hub, which provides utilities to syndicate unique views into catalogs, pricing, and data formats that meet requirements of trading relationships. Buyers “subscribe” to their version of the suppliers’ catalogs. Supplier networks also automate transaction and messaging between trading partner systems. In recent years, these networks have increased their participation and transaction volumes. And several have added expanded services, such as invoice reconciliation and payment functions.

Half of benchmark respondents indicated that they use a supplier network or catalog hub to support their e-procurement initiatives. The use of supplier networks and catalog hubs has simultaneously increased the number of suppliers enabled and decreased costs and burdens to buying and supplier organizations. In fact, the 2004 benchmark respondents reported that less than a quarter of their e-procurement support effort is dedicated to supplier enablement and management activities. This is a vast improvement of the 2001 benchmark which found that supplier enablement and systems integration accounted for nearly two-thirds of the e-procurement resources.

Figure 3: Supplier Enablement Still Has Its Challenges



Source: [AberdeenGroup](#), December 2004

User Adoption

Not surprisingly, user adoption has increased in synch with the increase in suppliers enabled. With more products and suppliers available, requisitioners have fewer reasons to try and circumvent the system. That said, benchmark respondents reported that their companies are only about half way to their total usage goals. Respondents cited the following barriers to user adoption:



- Inadequate representation of all spending categories within the e-procurement system.
- Inconsistent purchase requirements, procedures, and supply bases by site or region.
- Lack of executive mandates or policies to drive adoption and compliance.

Budget and Policy Support

A consistent barrier to e-procurement (and all supply management) initiatives is securing sufficient resources and support from top executives. Without backing from senior executives the procurement group lacks the clout to drive system adoption compliance among other functions and business units. Unfortunately, Aberdeen research revealed that less than a quarter of enterprises currently hold business unit leaders accountable for spend compliance targets. And only 16% of supply management executives reported that their CFOs provide sufficient backing and policy support to drive spend compliance.⁴

⁴ *Spend Compliance Management: Implementing and Sustaining Supply Savings* (December 2004)



Chapter Three: Implications & Analysis

Key Takeaways

- Best-in-class performers promote e-procurement as part of a strategic source-to-pay process and spend compliance engine.
- Best-in-class performers made organizational and policy changes to drive adoption and compliance.
- Best-in-class performers rely on supplier networks and supplier managed model for most enablement duties.
- Best-in-class performers define and reinforce metrics for measuring e-procurement success; and, where possible, link performance to incentives.

The above findings suggest a correlation between the value of an e-procurement investment and an enterprise's approach to supplier enablement, change management, and its ability to secure executive support for budgetary and policy changes. Enterprises that fail to overhaul policies and tackle supplier enablement issues will lag in user adoption, spend under management, and ROI.

Table 4 segments e-procurement users based on their characteristics in five categories required for effective system adoption and spend compliance:

1. Process – degree of standardization and efficiency of e-procurement deployment and procurement processes.
2. Organization – organizational structure, skills, and decision-making alignment across the company.
3. Knowledge – visibility into spending, system usage, and compliance.
4. Technology – breadth of e-procurement process footprint and how well it is integrated to support broader source-to-pay and supplier management initiatives.
5. Performance metrics – level, consistency, and frequency of system and spend compliance measurement and performance across the enterprise, including an assessment of actual performance against key compliance metrics.

Enterprises can use this framework to assess their own organization's e-procurement competence and to determine requisite initiatives for improvement.

**Table 4: E-procurement Competitive Framework**

	Laggards	Industry Average	Best in Class
Process	<ul style="list-style-type: none"> • Deployment focus on requisition and approval process • No policy mandates for compliance 	<ul style="list-style-type: none"> • Deployment focus on requisition-to-order process • Policies for compliance inconsistently measured 	<ul style="list-style-type: none"> • Deployment focus on requisition-to-pay or full source-to-pay process • Compliance policies consistently measured and enforced
Organization	<ul style="list-style-type: none"> • E-pro deployed on pilot or site basis • Initiative run by procurement group only. 	<ul style="list-style-type: none"> • E-pro deployed on division or regional basis • Initiative run by procurement with support from division or region leads. 	<ul style="list-style-type: none"> • E-pro deployed on pilot or site basis • Initiative run by procurement with support from chief executives and finance.
Knowledge	<ul style="list-style-type: none"> • Limited visibility into spending, compliance, or system usage 	<ul style="list-style-type: none"> • Some visibility into compliance, usage, and spend managed via e-pro 	<ul style="list-style-type: none"> • Detailed and near-real-time visibility into compliance, usage, and spend managed within and outside of e-pro
Technology	<ul style="list-style-type: none"> • E-pro deployed on pilot or site basis • Catalogs/supplier enablement managed internally 	<ul style="list-style-type: none"> • E-pro deployed across multiple business units • Catalogs/supplier enablement primarily managed internally with some punch-out and some supplier networks 	<ul style="list-style-type: none"> • E-pro deployed enterprise wide • Catalogs/supplier enablement primarily managed with punch-out and supplier networks. Some internal catalogs remain
Performance Metrics	<ul style="list-style-type: none"> • No formal program measurements. • <10% of indirect spend managed via e-pro • <50% of spend under management of procurement group 	<ul style="list-style-type: none"> • Metrics for cost, adoption, and compliance reported infrequently. • 33% - 40% of indirect spend managed via e-pro. • <70% of spend under management of procurement group. 	<ul style="list-style-type: none"> • Metrics for cost, adoption, compliance reported regularly and linked to financial goals and incentives. • >90% of indirect spend managed via e-pro. • >80% of spend under management of procurement group.



Source: [AberdeenGroup](#), December 2004

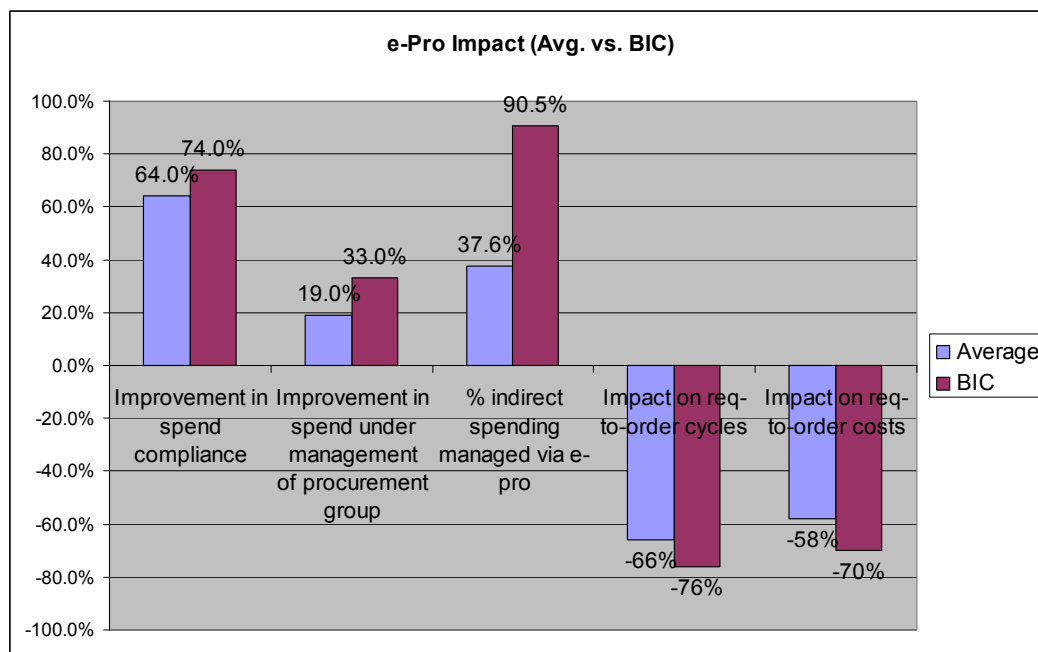
Enterprises reaping the greatest value from their e-procurement investments (“Best in Class”) have employed the following strategies and approaches:

- **Elevated e-procurement from a tactical transaction management activity to a strategic source-to-pay initiative for driving spend, financial, and performance compliance:** Best-in-class performers view and deploy e-procurement as part of an extended source-to-pay process that is designed to maximize spend leverage and compliance. These companies were also more inclined to invest in complementary procurement automation solutions and services, such as services procurement, e-sourcing, and order-to-pay capabilities. (Table 5 shows overall current and planned application investments.) As a result, these companies have a much easier time building a business case, securing program budget and support, and driving adoption and compliance. One example: Cinergy Corporation automated its source-to-settle process by directly connecting the e-procurement and purchasing components of its ERP provider to a third-party supplier network, which provides support for supplier enablement and transaction and settlement management.
- **Secured senior executive support and policy changes to drive system adoption and compliance:** Best-in-class performers used the compliance lever to secure executive support at the outset of their e-procurement initiative. Top performers dedicated an e-procurement program champion who was linked directly to top procurement and finance executives as well as business unit heads. These enterprises also tapped senior executives – including the CFO – to promote the intention and anticipated benefits of e-procurement to the enterprise. Most importantly, these executives put “teeth” into systems adoption and compliance program by establishing consequences for non-compliance. Example: Employees failing to use preferred suppliers and contracts at American Express get \$1,000 charged to their cost center and a warning letter from the CFO. Second-time violators get \$10,000 charged to their cost center.
- **Shifted the bulk of supplier enablement and catalog management tasks to third parties:** Top performers also relied more heavily on external supplier networks, catalog hubs, or procurement service providers for supplier enablement and management services. Such reliance helped best-in-class companies improve enablement rates without impacting internal resources or placing undo burdens on suppliers. For example, electronics distribution giant Avnet tapped the supplier enablement and catalog management services of a procurement service provider. Other companies have used supplier networks and enablement hubs to revitalize e-procurement initiatives. One example: GlaxoSmithKline (GSK) augmented its initial e-procurement platform investment by connecting to a third-party supplier network that could support enablement and management services for its lab supplies vendors.
- **Clearly defined and reinforced cost, process, and performance metrics for measuring e-procurement success:** Best-in-class performers also reported the consistent use of key system and compliance performance metrics, including adoption and usage rates, suppliers enabled, requisitions issued per month, re-

quests for off-catalog items, purchase price variance, and spend compliance. Several companies reported tying procurement function and business unit incentives to these metrics. For example: Delta Airlines links buyer incentives and business budgets to savings implemented and audited. E-procurement is a key component of the airlines overall compliance initiative. Verified savings are removed from the operating budgets of the impacted business units which are also measured and compensated in part on their compliance with cost savings targets.

Best-in-class performers employing these strategies have realized significantly greater efficiencies, price and cost reductions, and spend under management (Figure 4).

Figure 4: Best-in-Class Approaches Yield Big Results



Source: [AberdeenGroup](#), December 2004



E-procurement Users Looking to Expand their Investments

Considering the supplier enablement challenges noted above, it is not surprising that catalog management and supplier network services topped the list of complementary technologies and solutions currently in use by e-procurement users. Most users licensed these services in conjunction with e-procurement, suggesting that future e-procurement deployments will rely more heavily on supplier networks and catalog hubs.

By comparison, those respondents using procurement functionality designed to support the unique attributes of services procurement (e.g., labor, print) licensed these technologies after their initial e-procurement investment. This trend suggests that, fueled by early successes of e-procurement, most enterprises are expanding the breadth of categories procured and managed online.

Revitalized use of invoice reconciliation and payment capabilities suggests that enterprises are also expanding the process breadth of their procurement automation initiatives to include back-end order-to-pay processes. Most indicated that, while licensed in conjunction with initial e-procurement investments, these solutions are just being rolled out.

Table 5: E-procurement Users: Related Automation Investments and Plans

Technology Solution Area	Currently Use	Will Use within 2 years
Catalog management tools/services	56%	16%
Supplier/transaction network	49%	16%
Specialty services procurement application	43%	13%
Invoice reconciliation & payment app/network	40%	18%
Travel and expense management automation	40%	18%
Full e-sourcing platform	39%	20%
Reverse auctions	38%	16%
Spend data cleansing & classification software/services	38%	21%
e-RFx	38%	15%
Contract management	35%	26%
Procurement outsourcing services	34%	18%

Source: [AberdeenGroup](#), December 2004

Future buying intentions strongly point to the increased focus on spend visibility and compliance. The top areas of investment planned for e-procurement users include con-



tract management and spend data management software or services. Such plans reflect the fact that not all spend is (or will be) managed within the e-procurement system. Enterprises must employ methods to promote, enforce, and measure compliance for all spending – regardless of where it occurs.

Contract management provides a central location for all supply agreements as well as utilities for measuring compliance and enhancing collaborative contract creation. Spend data management tools enable the extraction, cleansing, classification, and analysis of spend data from multiple systems within and outside the enterprise, including e-procurement systems and P-card systems. Such insight can help monitor compliance and identify opportunities for savings and supplier rationalization. Some companies are applying auto-classification capabilities on the front-end of their e-procurement systems, to ensure that spend data is classified as it enters the system. (Details on contract management and spend data management strategies and technologies are available in Aberdeen's recent best practices and benchmark studies on these subjects.)



Chapter Four: Recommendations for Action

Key Takeaways

- Enterprises looking to improve spend compliance and control should give e-procurement a second look.
- Early adopters should invest to reinvigorate or extend underperforming initiatives
- To maximize adoption, compliance, and value, e-procurement users should secure policy changes, leverage supplier enablement services and networks, and refocus initiatives on strategic compliance objectives.

Enterprises looking to improve spend compliance and control should give e-procurement a second look. Likewise, early adopters should invest to reinvigorate or extend underperforming initiatives. Aberdeen recommends the following strategies for the best results:

Laggard Steps to Success

1. *Take e-procurement program to executive leadership ASAP.*

Leverage project plan and any early successes to re-craft a business plan that emphasizes the role and impact e-procurement can have on strategic compliance and finance initiatives. If internal data points are not available, leverage benchmark data and case studies of existing e-procurement deployments. If possible, create a crisis situation by including examples of competitors that have successfully leveraged e-procurement.

2. *Leverage supplier networks and catalog hub services whenever possible.*

Avoid the mistakes of early adopters by utilizing the supplier enablement and management services of supplier networks and content hubs as much as possible. Faster supplier enablement will drive user adoption and increase spend through the e-procurement system. Don't forget to communicate enablement strategy, expectations, and expected benefits to suppliers.

3. *Define basic performance goals and reporting schedules.*

Begin by benchmarking existing performance in key areas, such as requisition-to-order cycles and costs, maverick spending rates, purchase price variance, supplier count, and spend under management. Work with e-procurement solution provider to establish reports to track these metrics on regular basis. Report results to business unit heads and stakeholders on regularly scheduled basis. (Be sure to communicate a corrective action plan should performance dip.)

Industry Norm Steps to Success

1. *Reframe e-procurement project into broader compliance initiative.*



Examine current rollout plan and performance and identify process or spend categories at the edges that can improve spend leverage and drive compliance. Quantify the impact compliance improvements can have on the productivity and financial performance of individual business units and the enterprise as a whole. Use findings to secure executive and finance support for a broader spend compliance management program. Establish off-catalog request form and workflow to maximize capture of spend via the e-procurement system and spend under management of procurement group. Consider use of external procurement services to fulfill initial non-catalog requests.

2. *Adopt complementary functionality to expand process breadth and category coverage.*

Examine current rollout plan and performance and identify process or spend categories at the edges – e.g., automated invoice reconciliation and payment; print procurement and project management; online sourcing; contract management – that can improve spend leverage and compliance. Develop a process and category management map that identifies how these initiatives integrate with and augment e-procurement. Use benchmark data and industry reports to develop a cost-return analysis of each initiative. Prioritize recommended investments based on time-to-value return and technical readiness.

3. *Enact policy changes to compel and incentivize business unit compliance.*

Leverage executive support to enact policy changes and incentive programs that prompt business unit leadership to take an active role in driving e-procurement system adoption and spend compliance. Consider implementing charge-backs to business units and stakeholders for non-compliant purchases.

Best in Class Next Steps

1. *Rethink supplier enablement and transaction management approach.*

If you manage supplier catalogs and transactions internally, consider outsourcing these activities to a third-party network or service provider that can offer economies of scale and lower total cost of ownership for both you and your supplier partners. Work with enablement or network provider to identify and execute enablement strategies for next tier of suppliers.

2. *Improve spend data management capabilities.*

Adopt spend data management tools or services to capture and classify spending occurring outside e-procurement system in order to gain full visibility into spending. Consider integrating these auto-classification tools with the e-procurement system to ensure spend is correctly classified as it enters into the system.

3. *Employ demand management strategies.*

Link e-procurement transactions to financial systems to ensure that purchases executed through the system are removed against budgets. Incorporate rules and



workflow into e-procurement system to prohibit employees or cost centers from exceeding budgets without justification and approval. Leverage system-based requisitions and requests to pool demand to stagger financial exposure, optimize sourcing plans, and improve negotiation leverage with suppliers.



Featured Sponsors



Ketera Technologies is a leading provider of “on demand” procurement solutions, providing companies with key applications required to control and reduce corporate spending for direct and indirect (MRO) goods and services at a low cost of ownership.

Ketera Procurement Solutions include modules for spend analysis, e-procurement, services procurement and contract management. The “Ketera advantage” is an on demand delivery model which combines hosted procurement applications, a pay-as-you go pricing model, estimated at 50-80% lower than packaged software equivalents, and “heavy lifting” services required for success, including supplier enablement; hardware infrastructure, project resources, system administration, and solution upgrades.



Perfect Commerce is the largest provider of on demand supplier relationship management (SRM) solutions with more than 500 clients, including 190 clients in the Fortune 1000, 165,000 users, and 8,500 suppliers.

With industry-leading solutions for the entire source-to-settle process, a deep array of complementary services, and the largest independent supplier network in the world (The OSNSM), the company enables businesses to reduce the cost and complexity of their purchasing process and accelerate the delivery of bottom-line results.



PurchasingNet Inc. is a leading provider of Web-based e-procurement and e-payables software to mid- and large-sized companies. The company has over 1,400 customers in financial services, retail/consumer products, professional services, media/publishing and a variety of other industries.

Founded in 1983, PurchasingNet has focused exclusively on the development and implementation of procurement and payables applications. In addition to building an extensive, blue-chip client base, PurchasingNet possesses deep domain expertise in purchasing and payables business processes.

PurchasingNet's customers include Countrywide Financial, US Bank, Navy Federal Credit Union, American Financial Group, Skadden Apps, HBO, Black & Decker, Kroger, and General Mills.



SAQQARA is a premier provider of procurement managed services focused on supplier enablement, content management, and catalog hosting. Fortune 500 companies rely on SAQQARA to transform anticipated savings of their enterprise spend management (ESM) initiatives into actual results.

SAQQARA commerce data management (CDM) focuses solely on the most challenging barriers to ESM success. These include gathering, organizing, and managing vast quantities of supplier data and contract terms, enabling suppliers on the buying organizations preferred network, and making it easier for end-users to conform to procurement processes. SAQQARA delivers the key operational link between enterprises' sourcing programs and procurement solutions. SAQQARA's CDM managed service combines patented best-in-class technology, enterprise-strength IT operations, deep human expertise in content management and procurement, and proven process knowledge.



SciQuest's on demand solutions connect organizations with their suppliers to enable comprehensive spend management for life sciences and higher education markets.

SciQuest's suite of modular applications helps to automate the source-to-settle process. These solutions reduce redundant tasks and automate the process of finding, acquiring and managing goods to increase efficiency, reduce cost and provide total spend visibility.

Customers include Biogen Idec, GlaxoSmithKline, Pfizer, Roche, Schering-Plough, Arizona State University, Notre Dame, University of Michigan, University of Pennsylvania and Yale.



Sponsor Directory

Ketera Technologies Inc.

3965 Freedom Circle, 10th Floor
Santa Clara, CA 95054
Phone: 408-572-9500
Fax: 408-748-9674
Email: info@ketera.com

www.ketera.com

Perfect Commerce

850 NW Chipman Rd. , Suite 5050
Lee's Summit, MO 64063
Toll-free: 866-726-8355
Phone: 816-448-4444
Fax : 816-448-4700

www.perfect.com

PurchasingNet Inc.

125 Half Mile Road
Red Bank NJ 07701
Phone: 732-212-1500

www.purchasingnet.com

SAQQARA Inc.

6120 Stoneridge Mall Road
Suite 150
Pleasanton, CA 94588-3296
Phone: 877-964-0100 or 408-325-8200
Fax: 925-460-3784

www.saqqara.com

SciQuest, Inc.

P.O. Box 12156
Research Triangle Park, NC 27709
Phone: 919-659-2100
Toll-free: 888-638-7322
Fax: 919-659-2199

www.sciquest.com



Author Profile

Tim A. Minahan,
Senior Vice President and Managing Director
Supply Chain Research
AberdeenGroup, Inc.

Tim Minahan is senior vice president of supply chain management research for AberdeenGroup Inc. In this role, Minahan provides analysis and assessment of software and services that automate and streamline procurement, sourcing, design, and supply chain management operations.

Minahan specifically focuses on total cost management (TCM), which is an organizational and technological framework for managing the total cost of ownership of supply relationships. Within TCM, Minahan tracks spending analysis, sourcing, procurement execution, contract management, and supplier performance measurement technologies. Minahan also covers product life cycle management (PLM) technologies and their convergence with TCM. Minahan continually consults with early implementers of these applications to identify world-class supply management strategies and to determine the strengths and weaknesses of technology solutions and services that are competing in this market.



Appendix A: Research Methodology

Between November and December 2004, **AberdeenGroup** and *Line56 Media* benchmarked the e-procurement strategies, experiences, and intentions of 147 enterprises across multiple industries and geographies.

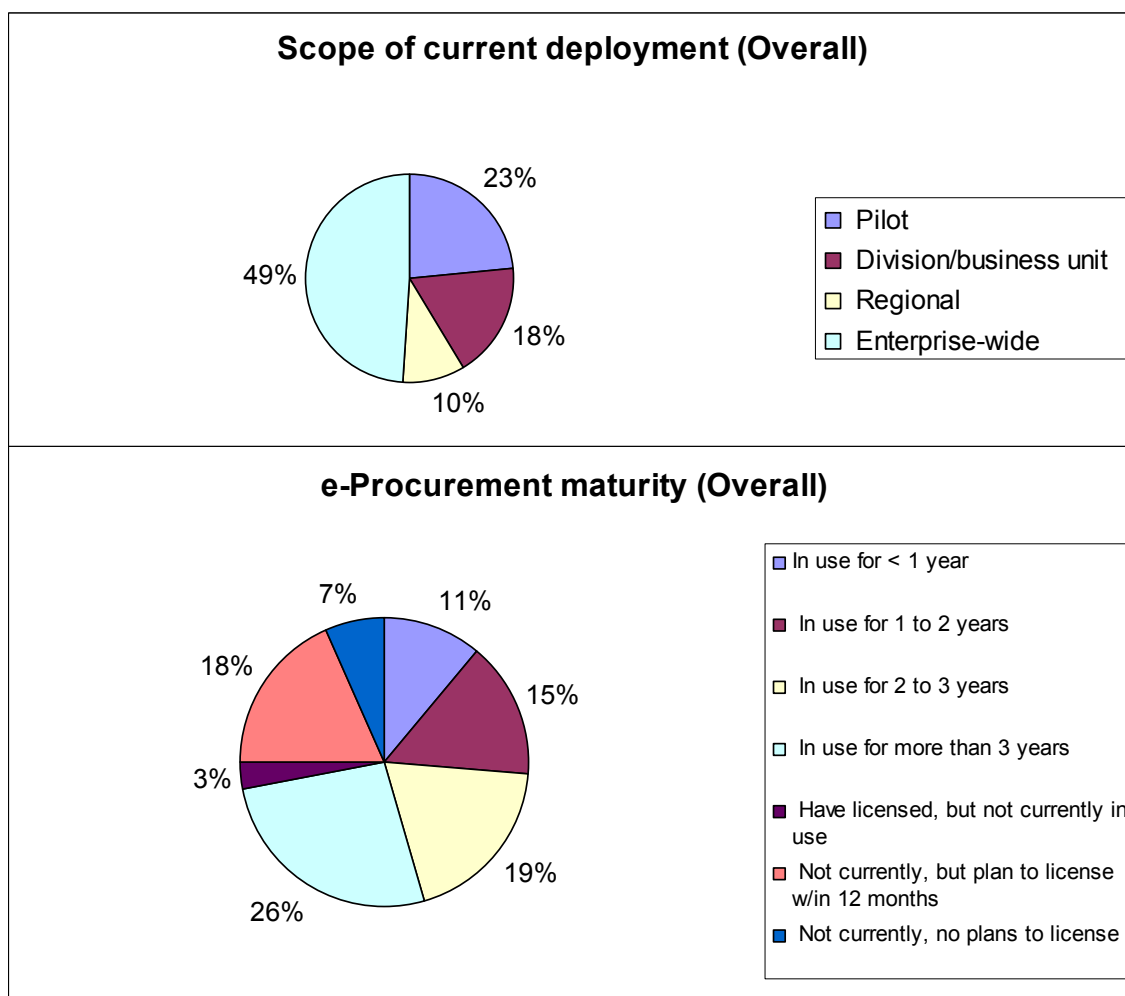
Responding supply management executives completed an online survey that included questions designed to determine the following:

- The maturity and scope of e-procurement deployments and how they fit within broader compliance and supply management initiatives
- The approach and corresponding results to various implementation, maintenance, supplier enablement, and integration strategies
- Current and planned use of related procurement and supplier management automation
- The benefits that have been derived from e-procurement investments

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on e-procurement strategies, experiences, and results.

The study aimed to identify emerging best practices for e-procurement deployment and provide a framework by which readers could assess their own e-procurement initiatives. Figure 5 describes the maturity and scope of the e-procurement deployments participating in this benchmark.

Figure 5: Maturity and Scope of E-procurement Deployments in Benchmark



Source: [AberdeenGroup](#), December 2004

Enterprises participating in the benchmark included the following attributes:

- **Industry:** High-technology manufacturers and software providers represented 21% of the sample, followed by financial services and retail firms, which accounted for 10% and 7% of respondents, respectively. Other industries represented in the sample included transportation and logistics, education, consumer package goods, consumer electronics, industrial manufacturing, automotive, mining, oil and gas, hospitality, and utilities.
- **Geography:** Forty-eight percent of benchmark participants were from North America. A third of participants were from Europe; 10% were from the Asia-Pacific region; 6% were from Latin and South America; and 2% were from the Middle East and Africa.
- **Company size:** Forty-three percent of respondents were from large enterprises (annual revenues above US \$1 billion); 27% were from midsize enterprises (an-



nual revenues between \$50 million and \$1 billion); and 28% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of the *E-procurement Benchmark Report*. Their sponsorship has made it possible for [AberdeenGroup](#) and *Line56 Media* to make these findings available to readers for a limited time at no charge.

Table 6: Competitive Framework

Competitive Framework Key
The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of E-PROCUREMENT practices and performance:
<i>Laggards (30%)</i> — E-PROCUREMENT practices that are significantly behind the average of the industry, and result in below average performance
<i>Industry norm (50%)</i> — E-PROCUREMENT practices that represent the average or norm, and result in average industry performance.
<i>Best in class (20%)</i> — E-PROCUREMENT practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.

Source: [AberdeenGroup](#), December 2004



Appendix B: Related Aberdeen Research & Tools

Related Aberdeen research that forms a companion or reference to this report include:

- *Spend Compliance Management: Implementing and Sustaining Supply Savings* (December 2004)
- *Best Practices in Spending Analysis: Cure for a Corporate Epidemic* (September 2004)
- *Best Practices in Contract Management: Strategies for Optimizing Business Relationships* (September 2004)
- *Best Practices in E-sourcing: Optimizing and Sustaining Supply Savings* (September 2004)
- *The Category Spend Management Report Series 2004: Contract Labor* (March 2004); *Telecommunications* (June 2004); *Travel* (June 2004); and *Advertising, Marketing, and Printing* (September 2004)

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.



About AberdeenGroup

Our Mission

To be the trusted advisor and business value research destination of choice for the Global Business Executive.

Our Approach

Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- IMPROVE the financial and competitive position of their business now
- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- CREATE DEMAND, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- ACCELERATE SALES, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

Our History of Integrity

Aberdeen was founded in 1988 to conduct fact-based, unbiased research that delivers tangible value to executives trying to advance their businesses with technology-enabled solutions.

Aberdeen's integrity has always been and always will be beyond reproach. We provide independent research and analysis of the dynamics underlying specific technology-enabled business strategies, market trends, and technology solutions. While some reports or portions of reports may be underwritten by corporate sponsors, Aberdeen's research findings are never influenced by any of these sponsors.



AberdeenGroup, Inc.
260 Franklin Street, Suite 1700
Boston, Massachusetts
02110-3112
USA

Telephone: 617 723 7890
Fax: 617 723 7897
www.aberdeen.com

© 2004 **AberdeenGroup, Inc.**
All rights reserved
December 2004

Founded in 1988, **AberdeenGroup** is the technology-driven research destination of choice for the global business executive. **AberdeenGroup** has over 100,000 research members in over 36 countries around the world that both participate in and direct the most comprehensive technology-driven value chain research in the market. Through its continued fact-based research, benchmarking, and actionable analysis, **AberdeenGroup** offers global business and technology executives a unique mix of actionable research, KPIs, tools, and services.

The information contained in this publication has been obtained from sources Aberdeen believes to be reliable, but is not guaranteed by Aberdeen. Aberdeen publications reflect the analyst's judgment at the time and are subject to change without notice.

The trademarks and registered trademarks of the corporations mentioned in this publication are the property of their respective holders.

THIS DOCUMENT IS FOR ELECTRONIC DELIVERY ONLY

The following acts are strictly prohibited:

- **Reproduction for Sale**
- **Posting on a Web Site**
- **Transmittal via the Internet**

Copyright © 2004 Aberdeen Group, Inc. Boston, Massachusetts

Terms and Conditions

Upon receipt of this electronic report, it is understood that the user will and must fully comply with the terms of purchase as stipulated in the Purchase Agreement signed by the user or by an authorized representative of the user's organization.

This publication is protected by United States copyright laws and international treaties. Unless otherwise noted in the Purchase Agreement, the entire contents of this publication are copyrighted by Aberdeen Group, Inc., and may not be reproduced, stored in another retrieval system, posted on a Web site, or transmitted in any form or by any means without prior written consent of the publisher. Unauthorized reproduction or distribution of this publication, or any portion of it, may result in severe civil and criminal penalties, and will be prosecuted to the maximum extent necessary to protect the rights of the publisher.

The trademarks and registered trademarks of the corporations mentioned in this publication are the property of their respective holders.

All information contained in this report is current as of publication date. Information contained in this publication has been obtained from sources Aberdeen believes to be reliable, but is not warranted by the publisher. Opinions reflect judgment at the time of publication and are subject to change without notice.

Usage Tips

Report viewing in this PDF format offers several benefits:

- **Table of Contents:** A dynamic Table of Contents (TOC) helps you navigate through the report. Simply select "Show Bookmarks" from the "Windows" menu, or click on the bookmark icon (fourth icon from the left on the standard toolbar) to access this feature. The TOC is both expandable and collapsible; simply click on the plus sign to the left of the chapter titles listed in the TOC. This feature enables you to change your view of the TOC, depending on whether you would rather see an overview of the report or focus on any given chapter in greater depth.
- **Scroll Bar:** Another online navigation feature can be accessed from the scroll bar to the right of your document window. By dragging the scroll bar, you can easily navigate through the entire document page by page. If you continue to press the mouse button while dragging the scroll bar, Acrobat Reader will list each page number as you scroll. This feature is helpful if you are searching for a specific page reference.
- **Text-Based Searching:** The PDF format also offers online text-based searching capabilities. This can be a great asset if you are searching for references to a specific type of technology or any other elements within the report.
- **Reader Guide:** To further explore the benefits of the PDF file format, please consult the Reader Guide available from the Help menu.